

TCI Real Estate Partners Fund IV LP Private Credit Recommendation

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Today's Presentation

TCI Real Estate Partners Fund IV LP (“Fund IV” or the “Fund”)

Main Presentation

1. Asset Class Considerations

- *Recommendation is consistent with PSERS Strategic Asset Allocation (SAA) and current year commitment planning*

2. Recommendation Overview

- *PSERS IO and Aksia recommend committing \$200 million to TCI Real Estate Partners Fund IV LP*

3. Strategy & Expertise

- *Demonstrated expertise in first mortgage loan origination to North American and Western European borrowers*

4. Investment Considerations

- *Investment expected to face certain risks consistent with Real Estate credit investments and staff believes that TCI has identified appropriate mitigants to those risks*

5. Investment Highlights

- *Strong historical performance and complementary fit within PSERS private credit portfolio*

Appendix

- Private Credit Dashboard
- Investment Committee Disclosure
- Performance Information

1. Asset Class Considerations

Recommendation is consistent with PSERS Strategic Asset Allocation (SAA) and current year commitment planning

PSERS SAA and Pacing

1. PSERS SAA has established long term targets of 6.0% in private credit and 4.0% in public high yield. Private credit's actual allocation was 7.4% as of March 31, 2023 (*Aon Quarterly Investment Review – First Quarter 2023 Preliminary*)
2. The current overweight is due to the Q4'2021 change in the SAA target from 8% to 6%
3. Per the most recent pacing analysis, annual commitments of \$615 – \$815 million result in the portfolio attaining SAA target in ~1 year (2024) while maintaining vintage year diversification

SAA Allocation	
Private Credit Target	6.0%
Private Credit Actual (3/31/2023)	7.4%
Anticipated Date to Reach Allocation	2024
Pacing Budget for 2023	
Pacing Budget Range	\$615 - \$815M
Primary Investments	
2023 YTD Commitment	\$315M
August Recommendations	\$200M
Co-Investments	
2023 YTD Commitment	\$0
Total Primary and Co-Investments	
Remaining 2023 Budget after August*	\$200M
Est. Remaining Primary Fund Recommendations after August	\$0
Expected to be in Target Budget Range for 2023?	Yes
Est. Co-Investment Capacity	~\$359M

**To the mid-point of the pacing budget*

2. Recommendation Overview

PSERS IO and Aksia recommend committing \$200 million to TCI Real Estate Partners Fund IV LP

Key Term	
Fund Name	TCI Real Estate Partners Fund IV LP
Firm Name	TCI Fund Management Limited (“TCI”) General Partner: TCI Real Estate General Partner IV Limited Advisor: TCI Real Estate Partners Limited
Net Return Target	9% - 12%
CRE Investment Professionals / Employees	12 / 67
Strategy Invested Capital ¹	\$2.5 billion
Target Fund Size	\$2 - \$3 billion
Recommended Commitment Amount	\$200 million
GP Commitment	The greater of 2% of the aggregate Commitments and \$30 million
PSERS Existing Relationship	Yes
Notable Investment Committee Disclosure ²	None

1. As of March 31, 2023
2. Detail in appendix (Slide 10)

3. TCI Real Estate Partners Strategy & Expertise

Demonstrated expertise in first mortgage loan origination to North American and Western European commercial real estate borrowers

- 1. Sector & Geography:** The TCI Real Estate Partners Limited strategy seeks to construct a portfolio of first mortgage loans secured by income-generating, trophy commercial real estate assets in core markets in North America and Western Europe.
- 2. Portfolio Construction:** Concentrated, unlevered portfolio of ~8 to 12 investments with an average loan amount of approximately \$200 million.
- 3. Credit Expertise:** Martin Fräss-Ehrfeld, the founder and chairman of TCI Real Estate Partners Limited (“TCI REPL”), has been investing in real estate loans since 2011. TCI REPL has completed more than \$14 billion of transactions in the asset class with an attractive loss ratio, all of which have been sourced by Mr. Fräss-Ehrfeld.

4. Investment Considerations

Investment expected to face certain risks consistent with Real Estate Credit investments and staff believes that TCI has identified appropriate mitigants to those risks

Risk	Detail	Mitigating Factors
Key Person Risk	Loan sourcing, origination, and underwriting is led by Martin Fräss-Ehrfeld.	<p><i>Fund documents contain a strong key person clause that would end the investment period if either Martin or Chris Hohn (Founder and PM of TCI Fund Management Limited) were no longer involved.</i></p> <p><i>PSERS' IOP is confident that a combination of TCI staff and third-party consultants could manage the existing loan portfolio through maturity if a Key Person Event were to occur.</i></p>
Concentrated Portfolio	Fund IV will be highly concentrated with 8 to 12 underlying loans expected.	<p><i>Concentration risk is partially mitigated by the focus on high quality properties in prime locations of core markets with experienced, institutional quality equity sponsors and borrowers.</i></p>
Reinvestment Risk	Given that the all-in interest rate borrowers pay tend to be high on an absolute basis, borrowers will seek to either pay off or refinance this debt as soon as possible. If the debt is retired early, TCI and/or PSERS may struggle to deploy that capital in an opportunity with a similar risk / return profile.	<p><i>Early repayment of debt increases the IRR (while decreasing the multiple) and lowers the risk of loan default. The current higher-rate environment and lack of competition / liquidity should also reduce the risk of early repayment for the Fund IV vintage.</i></p>

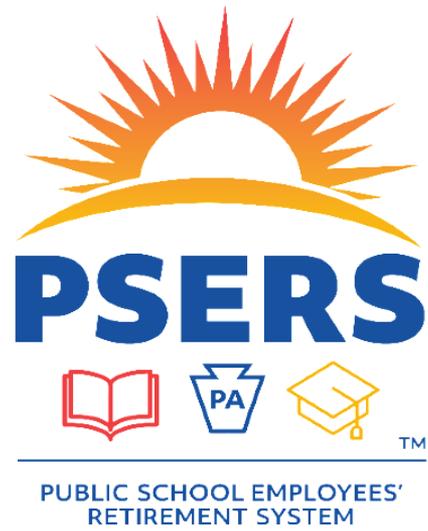
Note: Please see Aksia and PSERS confidential memos for additional discussion on risks and mitigants.

5. Investment Highlights

Strong historical performance and complementary fit with PSERS private credit portfolio

Highlight	Detail
Improved Market Opportunity	Liquidity providers (such as TCI Real Estate Partners Limited) are now able to command wider spreads at lower LTVs. The Fund should face reduced competition given retrenchment of regional banks and heightened liquidity pressures facing many levered lending platforms (i.e., mortgage REITs).
Portfolio Fit	Fund IV assets will be diversifying to existing corporate credit exposure, providing protection against inflation (via hard asset collateral) while generating current income from cash-pay interest and upfront transaction fees. Fund IV assets will also be complementary to existing Real Estate credit exposure.
Strong Fund III Performance	PSERS' investment in TCI Real Estate Partners Fund III LP has been accretive to the private credit portfolio, generating a net IRR / MoC of 10.8% / 1.19x, and Direct Alpha / KS PME of 3.9% / 1.07x versus the private credit policy benchmark ¹ , as of March 31, 2023.

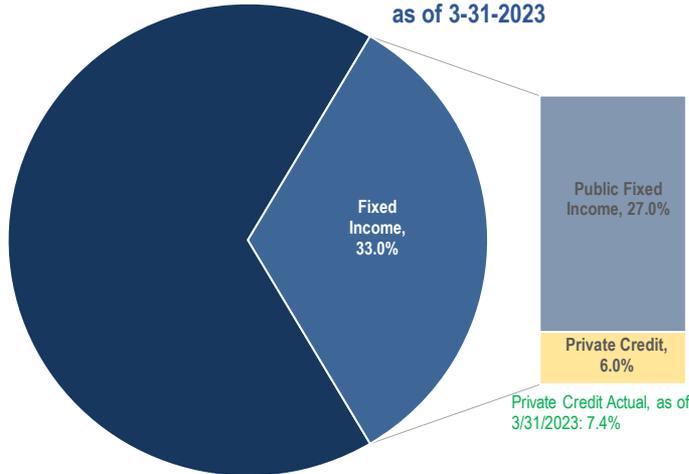
¹Morningstar/LSTA Leveraged Loan Index +200 bps



Appendix

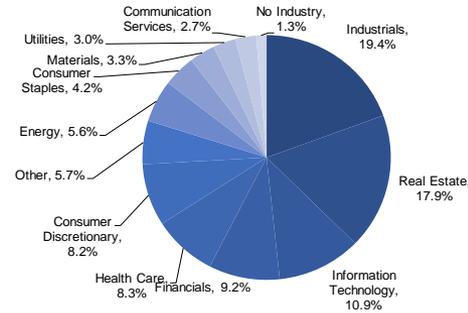
Private Credit Dashboard (as of March 2023)

Target Allocation to Private Credit as of 3-31-2023

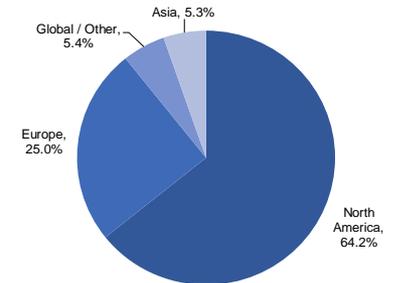


Note: 7.4% figure sourced from Aon Quarterly Investment Review – First Quarter 2023 Preliminary

Sector Diversification



Geography



Recent Fund Deployment (\$M)

2021 Budget Items	
ICG Europe Fund VIII	\$ 236.0
Bain Special Situations Asia II	\$ 125.0
Sixth Street Opportunities Partners V	\$ 150.0
IIFC Fund III	\$ 250.0
2022 Budget Items	
Whitehorse Liquidity Partners V LP	\$ 200.0
Clearlake Opportunity Partners III	\$ 100.0
Sixth Street Lending Partners	\$ 250.0
2023 Budget Items (To Date)	
Park Square SMA (CP V Strategy Inclusion)	\$ 115.0
PIMCO Commercial Real Estate Debt Fund II	\$ 200.0

PSERS Private Credit Portfolio Performance

	Time-Weighted					Dollar-Weighted		
	1-YR	3-YR	5-YR	10-YR	ITD	KS PME	Direct Alpha	ITD
Direct Lending	6.2%	10.6%	7.5%	9.5%	7.9%	1.07x	2.4%	9.7%
Mezzanine	-2.7%	15.5%	11.0%	10.5%	11.1%	1.14x	4.4%	10.8%
Distressed & Special Situations	1.8%	11.9%	6.9%	7.1%	6.8%	1.01x	0.3%	8.4%
Specialty Finance	-2.9%	22.2%	17.0%	10.7%	10.7%	1.04x	2.8%	9.3%
Real Estate Credit	7.1%	9.1%	0.0%	1.1%	1.1%	0.90x	-4.6%	1.9%
Real Assets Credit	11.2%	25.4%	6.1%	3.3%	3.7%	0.88x	-3.5%	2.4%
Total Portfolio	3.8%	13.3%	7.4%	7.4%	7.1%	1.03x	0.9%	8.4%
Benchmark	4.6%	10.7%	5.7%	5.8%	6.5%			

* Sector and geography exposure as of 12/31/2022

Investment Committee Disclosure

No material mandatory disclosures

Disclosure	Response
Relationship with Aksia	Aksia represents other non-discretionary and discretionary clients with commitments to various TCI-managed investments. As of 6/20/2023, there were no Aksia clients committed to Fund IV.
Introduction Source	Existing Relationship
Compliance with Placement Agent Policy	As confirmed by PSERS' Office of Chief Counsel on 7/13/2023, this investment complies with the Board's policy.
PA Political Contributions	None Disclosed
PA Presence	None
Potential Conflicts	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
Litigation Disclosure	TCI receives communications from regulators and is involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has or may have a material effect on the Fund.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	No
Certification of Due Diligence Costs	IOP certifies that PSERS paid all travel costs, if any, and was not reimbursed for the travel costs related to due diligence of the Fund.

Current Private Credit Investments with TCI

Within the Private Credit portfolio, PSERS previously committed \$400 million to one TCI Real Estate Partners Limited-managed partnership. The table below summarizes PSERS' private credit portfolio performance with TCI Real Estate Partners Limited as of March 31, 2023:

Fund (\$M)	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
TCI Real Estate Partners Fund III	2018	\$400.0	\$134.8	\$111.1	\$49.4	10.8%	1.19x

Note: as of 3/31/2023. Source: Burgiss

The investment period for Fund III ended on March 15, 2021. Due to the market uncertainty around the COVID pandemic, TCI Real Estate Partners Limited stopped deploying capital in the strategy during 2020 as the pipeline evaporated and the target returns became unattainable. Accordingly, in 2021 TCI reduced PSERS' commitment by \$178.8 million to approximately \$221.2 million.

Public Market Equivalent (PME) Analysis

PSERS' IOP performed a Public Market Equivalent analysis of PSERS' prior commitment to TCI Real Estate Partners Fund III LP ("Fund III") against the Private Credit Policy Benchmark, Morningstar/LSTA Leveraged Loan Index +200bps ("LLI+200"), and the same index without a spread ("LLI"). As of March 31, 2023, PSERS' prior commitment to Fund III was generating strong Direct Alpha / KS PME Ratio of 3.9% / 1.07x and 5.9% / 1.10x relative to the LLI+200 and LLI, respectively:

Fund (\$M)	Vintage	Net IRR	Net MoC	LLI +200		LLI	
				Direct Alpha	KS PME	Direct Alpha	KS PME
TCI Real Estate Partners Fund III	2018	10.8%	1.19x	3.9%	1.07x	5.9%	1.10x

Note: as of 3/31/2023. Source: Burgiss